What the Markets Are Telling Reagan
The Scramble to Find the Next Superdrug
How to Stop Worrying About the Canadian Invasion

$2.50 October 19, 1981

FORTUNE

-/ C 8100-1

EXXON

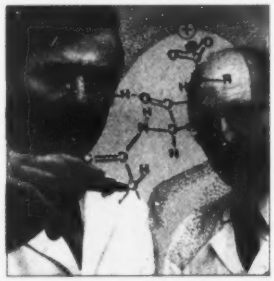
EXXON'S $600-MILLION BATH

MAY82 000 ES5200961Y S2 00 14
CONGRSSNL INFO SVC M034
4520 EAST-WEST HWY
STE 800 SRI ACQ
WASHINGTON DC 20014

BEST AVAILABLE COPY

FORTUNE

Art director Ronald N. Campbell ruffled the familiar blue strip into waves and tipped the company name into the blue for the cover. The startling story of Exxon's misalliance with Reliance Electric begins on page 68.



94 Superdrugs

116 Farm Policy

152 Deregulation

Departments

4 THE EDITOR'S DESK

7 IN THE NEWS
LTV grabs for **Grumman**, more write-offs at **AM International**, **IC Industries** springs a surprise, **Equitable Life** names its heir apparent, **Pabst**'s new gunfighter boss, **Northwest Bancorp.** gets a "jewel"—and more

43 LETTERS TO FORTUNE

53 FORTUNE FORECAST
Amid the political furor, interest rates are coming down

A lame recovery in housing

59 KEEPING UP
by Daniel Seligman

ACKNOWLEDGMENTS

4—Enrico Ferorelli. 7—Courtesy of Grumman. 8—Courtesy of IC Industries. 13—Courtesy Federal Finance. 43—Tom Zimberoff-Sygma. 53,56—Chartmakers Inc. 59,60—Michael McGinn. 66—Diana H. Walker. 94,95—Courtesy E.R. Squibb & Sons, Princeton, New Jersey. 96—Courtesy Eli Lilly & Company, Indianapolis, Indiana. 100—Courtesy Pfizer, Inc. 112—Wolfgang Hoyt-Esto. 118—Patricia Byrne. 158,162—Michael Ramus. 181—John Haines. 184—Photograph by Steve Hansen. 205,208—Symbols: Joe Lertola, Charts: Patricia Byrne.

FORTUNE (ISSN 0015-8259). October 19, 1981. Vol. 104. No. 8. Issued biweekly by Time Inc., 3435 Wilshire Blvd., Los Angeles, Cal. 90010. Second-class postage paid at Los Angeles, Cal., and at additional mailing offices. Subscriptions: U.S., U.S. possessions: one year $33; Canada: one year $39; elsewhere: one year $42 to $70. Single copy $2.50. Address all subscriptions and correspondence concerning them to FORTUNE, 541 North Fairbanks Court, Chicago, Ill. 60611. Principal offices: Time & Life Building, Rockefeller Center, New York, N.Y. 10020. Address correspondence concerning editorial material to FORTUNE, Time & Life Building, Rockefeller Center, New York, N.Y. 10020. J. Richard Munro, President; J. Winston Fraikes, Treasurer; Charles B. Bear, Secretary. Authorized as second-class mail by the Post Office Department, Ottawa, Canada, and for payment of postage in cash. Mexico: Autorizado como correspondencia de segunda clase—registro DGC-N-no. 0510881, caracteristicas 226251415, por la dirección general de correos de México. Responsable en México para efectos postales: Carlos Ruiz Phelps, Lerdo 13, México, D.F. 11560. Member, Audit Bureau of Circulations. POSTMASTER: Send address changes to FORTUNE, Time & Life Building, 541 N. Fairbanks Court, Chicago, Ill. 60611.
© 1981 Time Inc. All rights reserved. Reproduction in whole or in part without permission is prohibited. FORTUNE is a registered mark of Time Inc. Printed in U.S.A.

181 Winning

192 Takeovers

205 PERSONAL INVESTING
Profit in helping those who help the sick
by Aimée L. Morner

213 BED AND BOARD
A restored inn in Greenwich, Connecticut
by Jeremy Main

221 A DIFFERENCE OF OPINION
Why merger specialist Arthur Burck hates mergers

233 BOOKS AND IDEAS
The case for people
by Daniel Seligman

BUDGET
62 What the Markets Are Telling Reagan *by A. F. Ehrbar*
They're not saying the economic plan won't work. They're afraid he won't stick with it.

"Uncertainty Is Breeding Fear"
An interview with Treasury Secretary Donald Regan

TROUBLE
68 Exxon's $600-Million Mistake *by Lewis Beman*
Managerial folly was compounded by bad luck in the Reliance Electric merger. The costs look far greater than has been reported.

R&D
94 The Scramble for the Next Superdrug *by Myron Magnet*
Merck, Pfizer, Squibb, and others think they'll soon have magic pills to cure the Wall Street blahs.

AGRICULTURE
116 Free the Farm 2½ Million *by Tom Alexander*
Even many farmers think the 50-year addiction to the opiate of government assistance has been bad for farming.

PICTURE PORTFOLIO
130 Towers of Grain
From Cargill and Seagram to Funk's Grove, the grain elevators overflow.

DEFENSE
142 Washington's New Push for Anti-Missiles *by John Quirt*
The Administration wants a system that can knock down anything the Soviet Union can launch. Laser beams from space might do it.

ENERGY
152 The Blazing Battle to Free Natural Gas *by Alexander Stuart*
Decontrol will be painful, but it's the missing link in a rational energy policy.

NEW MANAGEMENT STRATEGIES
181 Three (or Four, or More) Ways to Win *by Walter Kiechel III*
They're called "generic strategies," and they help explain how real-world competitors come out on top. (Part of a series)

TAKEOVERS
192 Stop Worrying About the Canadian Invasion *by John Carson-Parker*
The total investment in the U.S. is less than one-fourth of U.S. investment in Canada. Americans should say, "Welcome. Bring money."

TAKEOVERS

Stop Worrying About the Canadian Invasion

by JOHN CARSON-PARKER

At the height of the recent bidding for Conoco, Wall Street wags said there would soon be only two stocks on the Big Board: Seagram and a conglomerate of all the companies fleeing Seagram takeovers. What bothered some Americans about Seagram was that it was not only voracious but also Canadian—one of a number of Canadian companies that have displayed an appetite for acquisitions in the U.S. Conoco made a point of that in its defense against Seagram. In a public statement the weekend the struggle climaxed, a Conoco spokesman warned that if the Seagram bid succeeded, it "would encourage further raids by Canadian companies on U.S. companies."

Canadian companies have been acquiring sizable assets in the U.S. for several years now, but a couple of recent developments have brought the matter to the consciousness of Congress and the public. One is the scale and drama and suspense of the struggle for Conoco. Even more important is the Canadian government's discrimination against U.S. companies in Canada. (See "Trudeau's War on U.S. Business," FORTUNE, April 6.) Especially ire-arousing is the National Energy Program, announced by the government of Prime Minister Pierre Trudeau last October and due to be debated before long in Parliament. An avowed objective is to reduce foreign ownership of energy resources in Canada—which mainly means U.S. ownership. Specifically, the objective is to increase Canadian ownership to 50% by 1990, from a little more than 30% when the program was put into effect. To help meet that objective, the NEP starkly discriminates against foreign ownership of gas and oil resources. Under a system of incentives for oil and gas exploration, enterprises at least 75% owned by Canadians would get federal rebates of 35% of their costs, starting in 1982, and those 50% Canadian-owned would get 10%. Those less than 50% Canadian would get nothing.

The judgment of the marketplace was that the NEP dimmed the outlook for Canadian oil and gas properties owned by U.S. companies. Conoco points out that in the month immediately following the announcement of the NEP, stock prices of foreign-controlled oil companies in Canada dropped 15%, as against only 5% for Canadian-controlled companies. Some U.S. companies have complained bitterly that the decline in market value—the "Trudeau discount"—made their properties in Canada more vulnerable to Canadian takeovers.

"If you took every nickel"

Anger and distress about the NEP have colored U.S. attitudes toward Canadian investments south of the border. Actually, the value of U.S. acquisitions by Canadian companies over the last couple of years has been substantially smaller than the value of acquisitions by companies from several other countries, including West Germany and Britain. Yet there is talk in Congress of actions specifically aimed against Canada.

Canadian companies spent $1.1 billion last year to acquire assets in the U.S., against $590 million in 1979. But that's nothing for Americans to get alarmed about. "The U.S. is not a banana republic," observes William D. Mulholland, an American who is chairman of the Bank of Montreal. "If you took every nickel you could scrape together in Canada, you still wouldn't make a dent in the American petroleum industry."

What's lacking in the debate on Canadian acquisitions in the U.S., Mulholland believes, is a sense of proportion. At around $10 billion, Canadian investment south of the border is well under a quarter of American investment north of it. To J. Trevor Eyton, president and C.E.O. of the Toronto investment-management company Brascan, the difference seems so overwhelming that "it's difficult to understand what all the fuss is about."

Many Canadian business executives who deplore the storms the NEP is stirring nonetheless believe it's reasonable for Canada to want to reduce non-Canadian ownership of its energy resources. As one of them puts it, "very few countries would tolerate" foreign ownership of two-thirds of their oil and gas industries. Other countries, including Saudi Arabia, Venezuela, and Britain, have far more nationalistic energy policies, Canadians argue. So why all the fuss about poor old Canada?

One answer is that poor old Canada has put up with a large U.S. economic presence for so long. There are few things more

frightening than an angry sheep, and whereas everyone now expects Saudis, Venezuelans, and even Britons to be militant about their oil, hardly anyone anticipated militancy from Canadians. Another answer is that companies from these countries have not been going after big U.S. companies, or portions of their assets, in ways that lead to prolonged battles, widely covered in the press.

Especially vigorous was the fight that Cities Service Co. of Tulsa—No. 19 among U.S. oil companies—lately put up against Nu-West Group Ltd. of Calgary. Nu-West, a real-estate developer that branched out into oil and gas, bought more than six million shares of Cities Service, about 7% of the total outstanding. That was a bite bigger than the biter: by Cities Service reckoning, the cost of the stock, some $270 million, was about 10% greater than Nu-West's net worth at the end of 1980.

Whatever the people who run Nu-West had in mind, they must have been taken aback at the ferocity of the reaction in Tulsa. Cities Service brought a lawsuit against Nu-West and lined up credits amounting to $4 billion from U.S. and foreign banks, a daunting defense fund. Cities Service also threw some unusually pungent language Nu-West's way—"economic buccaneering," "Calgary Pirates." Executive Vice President Philip W. Wood charged that Nu-West's intention was "to strong-arm Cities Service into surrendering at distress prices certain valuable Canadian oil and gas properties in return for Nu-West's holdings of Cities Service stock." Nu-West's attack, Wood added, was a result of "the Canadian government's policies of nationalistic discrimination."

A shield for predators

Along with roundly knocking the NEP, Cities Service expressed two particular complaints about advantages Canadian companies have in going after assets of U.S. companies. One is that Canadian banks can be much freer than U.S. banks about lending corporate borrowers funds to acquire stock of other companies. U.S. banks are bound by a Federal Reserve Board margin requirement: if a company borrows to buy stock in another company and uses the stock as collateral, the bank cannot lawfully lend more than 50% of the market value. But Nu-West, as Cities Service told it, was able to borrow 100% of the value of the purchased shares, and thus could get into the game without putting up any cash.

Another major complaint was that Canada shields Canadian "predators" from counterattack. When a U.S. company aggressively acquires shares of a larger company, a standard defense against the cheeky maneuver is a tender offer for the aggressor. But a U.S. defender can't very well do that to a Canadian company. What stands in the way is Canada's Foreign Investment Review Agency. Established by Trudeau in 1973, FIRA has the power to prevent foreign investors from acquiring

Illustration by Wayne McLoughlin

control of Canadian companies unless their doing so would be "of significant benefit to Canada." It seems unlikely that, say, a preemptive purchase of Nu-West by Cities Service would qualify.

Even with these advantages, however, Nu-West did not get whatever it was after. The company became entangled in its own fishnet. With Canadian interest rates above 20%, it was incurring charges of more than $1 million a week on the money it borrowed to buy Cities Service stock. In mid-September, Nu-West agreed to sell the stock to Cities Service, at a price high enough to permit escape from the net at close to the breakeven point.

Coping with the tilt

A U.S. Congressman observed that Nu-West's move against Cities Service was "an instant replay" of a move another Calgary company, Dome Petroleum, had made against Conoco. On May 6, with Conoco having closed the night before at $49.88, Dome offered $65 a share for 20% of the stock. The avowed purpose was to use this stock to negotiate for Conoco properties in Canada, specifically Hudson's Bay Oil & Gas. "The bargaining advantage," Conoco said afterward, "was clearly tilted in favor of Dome due to Canadian government policies."

Despite the tilt, Conoco did all right. By inviting bids from other prospective purchasers of HBOG, Conoco prodded Dome into improving its original offer by 70% or so. Dome did get HBOG, as things turned out, but Conoco got what it called "fair value" in return.

That wasn't the end of the story, though—it had a sensational sequel. When Dome bid for 20% of Conoco, stockholders actually tendered 51%. A number of observers concluded that a bid for a controlling share of Conoco might capture its huge oil and gas reserves at a good price. That led to the grand-scale bidding war between Seagram, Mobil, and the eventual winner, Du Pont. (See "The Making of the Megamerger," FORTUNE, September 7.)

In the midst of its struggle to fend off Seagram, Conoco claimed that Seagram's bid sprang "from the nationalistic policies of Canada." There Conoco was treading on boggy ground. Seagram did not bid for Conoco assets in Canada—it bid for Conoco. Says a top Canadian executive: "It's crazy to make this into a nationalism issue, but that's what these P.R. guys are getting paid for."

Conoco nevertheless got a sympathetic hearing on Capitol Hill. There was a feeling among Congressmen, says a Washington lawyer representing Canadian interests, that "by God, we'll make those Canadians toe the line." But effective legislation to block the Canadian move south is most unlikely. For one thing, the business reasons behind it are so strong that roadblocks big enough to bring Canadian acquisitions to a halt are difficult to visualize.

The fundamental reason for the southward flow of capital is that the U.S. market is so much bigger than the Canadian market. "You have ten times the population, which means there are ten times the opportunities," says Albert Reichmann, head of Olympia & York, the big real-estate firm. Reichmann and his colleagues have spotted quite a few opportunities in the U.S. in recent years. Olympia & York owns eight large office buildings in Manhattan alone, including the headquarters of American Brands, Sperry, and ITT.

Canadian manufacturing companies that have acquired assets south of the border give the same sort of reason. A major player is AMCA International (formerly Dominion Bridge), which has acquired a dozen U.S. companies since the early Seventies, the latest being Koehring Co., a Milwaukee manufacturer of construction equipment, for which AMCA paid $140 million last year. Chairman Kenneth S. Barclay observes that if his company

Energy, Manufacturing, Retailing

Acquirer	Year	Acquisition	Amount
Seagram Co., Montreal	1981	Conoco: 25.5% of stock, to be traded for approximately 20% of Du Pont stock	$2.6 billio
Hiram Walker Resources, Toronto, in both alcoholic beverages and energy—like Seagram	1981	Davis Oil Co., Denver: gas and oil properti in Wyoming, Oklahoma, Texas, Louisiana	$6
Genstar Ltd., Vancouver, building materials, land development, financial services	1980	Flintkote Co., Stamford, Connecticut, manufacturer of building materials	
Brascan, Toronto, holding company (partly owned by the Bronfman family)	1981	Scott Paper Co.: increase in eq to 20.5%	
Dominion Bridge (now AMCA International), Montreal, controlled by Canadian Pacific	1980	Koehring Co., M manufacturer	
Bow Valley Industries, Calgary, energy resources	1978	Flying Diamond C	
Steinberg Inc., Montreal, retailer	1981	Smitty's Su supermarket c	
Trimac Ltd., Calgary, energy and transportation services	1980	Cactus Drilling Corp	
Imasco Ltd., Montreal, food processing, tobacco, retailing	1981	Hardee's Food Systems, Roc Carolina: increase in equity from	
Dominion Bridge	1977	Amtel Inc., Providence, diversified c manufacturing, construction, petroleu	

Canadian Money Rolls In

Despite all the excitement stirred up by unfriendly Canadian takeover attempts, most of the Canadian investment flowing into the U.S. comes in quieter forms—friendly acquisitions, minority shareholdings, and above all, real-estate development. The table at left above lists the biggest deals of the last five years apart from real estate. Not included are Canadian acquisitions of U.S.-owned assets in Canada. Members of the Bronfman family control two of the acquirers on the list: Seagram and Brascan, which this year increased its stake in Scott Paper from 12% to 20.5%. In the real-estate table, only the last item represents purchase of existing buildings. All the rest are development or redevelopment projects. The dollar figures are developers' estimates of the overall costs.

Real Estate

Developer	Year	Project	Amount
Cadillac Fairview, Toronto, North America's largest publicly held development firm	1981	Los Angeles: California Center, redevelopment project (50% partnership with U.S. developers)	$1.2 billion
Olympia & York, Toronto, privately held real-estate giant	1981	New York: four office towers at Battery Park City	$1 billion
Olympia & York	1980	San Francisco: Yerba Buena, office building, hotel, condominiums, stores	$500 million
Brascan Ltd., Toronto, real-estate developer	1981	Dallas: two office towers, hotel	$500 million
Campeau Corp., Ottawa, commercial developer and investment holder	1981	Dallas: three office buildings, retail mall	$400 million
Campeau Corp.	1981	Houston: high-rise office building	$400 million
Campeau Corp.	1981	San Jose: residential, hotel, retail complex (joint venture with local developer)	$400 million
Brascan Ltd.	1980	Chino Hills, California: Rolling Ridge Estates, residential, retail development	$400 million
Cadillac Fairview	1979	Houston: Houston Center, office, hotel, retail complex (joint venture with local company)	$350 million
Olympia & York	1977	New York City: purchase of eight existing office buildings	$320 million

wants to acquire another whose sales and earnings would make a material difference to those of AMCA ($1.1 billion and $47 million), "the opportunities for doing so in Canada are few."

Many fast-track Canadian companies feel they have as much of the Canadian market as is healthy or promising. "Having 70% of the Canadian market for our products, we began looking outside the country," says Richard W. Wertheim, assistant vice president for investor relations at Northern Telecom, the big manufacturer of communications equipment. It now has 16 manufacturing facilities and 12,000 employees in the U.S.

To escape the buffoons

"The sense that you've got to look south for growth is in every boardroom in Canada," says a top bank executive in Toronto. As recently as the late 1960s, he adds a little sadly, this was not so: "Canada then was very much the land of opportunity, for Canadian as well as U.S. companies."

So while Trudeau has been shrinking opportunities for U.S. companies in Canada, he has also, it seems, been doing the same for Canadian companies. Says an executive of a big Toronto conglomerate: "With the bunch of buffoons we have in Ottawa, we're not going to throw good money after bad by investing here." Duff Scott, an executive vice president in the investment-banking firm of Greenshields Inc., adds that the C.E.O. of any Canadian company has to be thinking, "We've got Trudeau, we've got an increase in government interventionism; it would be nice to have a good proportion of our assets in another country."

Highly discouraging to Canadian investment in Canada is "the Canadian disease": chronic bickering between the federal government and the provinces, and between various regions of the country, as well as the separatist leanings in Quebec. And under Trudeau the disease seems to have worsened. It's true that a conspicuous political conflict recently eased with the agreement between the Trudeau government and Alberta, the province that produces most of Canada's oil—Ottawa agreed to let domestic oil prices go up, Alberta agreed to let Ottawa take a bigger share of oil revenues. But that left plenty of political stresses for Canadians to worry about.

The country's downbeat economic outlook is also driving capital out. Canada has a bad case of stagflation, and the business community seems to have little faith that Trudeau will do anything very helpful about it. According to Montreal's C.D. Howe Institute, a leading research organization, "Canada is entering the 1980s with its confidence shaken and its plans for the future in disarray."

By contrast, the U.S. looks inviting—particularly with its new atmosphere of deregulation and easing tax burdens. Apparently this was a major factor in the decision of Hiram Walker Resources Ltd. to put up $630 million to buy oil and gas properties from Davis Oil Co. of Denver.

Clinching other arguments, in the view of many Canadians, is the conviction that a lot of U.S. assets are undervalued. The long weakness of the stock market persuades many foreigners that a big rise in American equities is overdue. As Montreal management consultant Charles Perrault puts it, the perception in Canada is that "there are better buys in the U.S."

By its own boomerang

With so many factors favoring a southward flow of investment, Canadian business people hope the preservation of Conoco as a U.S.-controlled entity will bring a cooling off in Washington. Conoco, however, may get bopped by its own boomerang. During its struggle to fight off Seagram, the company suggested that the Interior Department declare Canada a "nonreciprocal" country under the terms of the rarely invoked Mineral Lands Leasing Act of 1920. If Interior did that—because of Ottawa's refusal to give U.S. companies leasing privileges similar to those available to Canadians—then the act would restrict Canadian investment in U.S. companies holding interests in U.S. federal leases. But that would include Conoco leases. Since Seagram will apparently end up owning some 20% of Du Pont, invoking the Mineral Lands Leasing Act could hinder Du Pont's exploitation of Conoco assets.

For its part, Capitol Hill is going to be considering at least two bills to rein Canadian companies in. The more drastic one would impose a flat nine-month halt on Canadian acquisitions of more than 5% of the stock of U.S. energy companies. Unless "a new Conoco" comes up, Washington observers say, this bill has little chance of becoming law, but they think the milder

Eyton of Brascan

Mulholland of the Bank of Montreal

Sinclair of Canadian Pacific Enterprises

How They See It from Canada

These chief executives agree on at least one thing: Americans are overreacting to Canadian acquisitions. J. Trevor Eyton, 47, president of Brascan, finds it "difficult to understand what the fuss is about." William D. Mulholland, 55, a U.S. citizen who is chairman of the Bank of Montreal, reminds his countrymen that the U.S. "is not a banana republic." Ian D. Sinclair, 67, chairman of Canadian Pacific Enterprises, feels Americans aren't sufficiently aware that U.S. companies control dominant shares of several major industries in Canada, "not just oil."

one has pretty good prospects of passage. Under its provisions, Canadian acquirers borrowing funds to buy stock of U.S. companies would have to comply with the Fed's 50% margin requirement. The rule would apply to all foreign acquirers, not just Canadians, but there is little doubt that it is mainly aimed at Canada. According to a veteran observer of the Washington scene, "People around here are thumping the table and saying Canadian companies ought to be in compliance like everyone else."

Into the hands of jingos

While the bill might make Congressmen feel better, its effect would be only cosmetic, some Canadian bankers say, because the application of margin requirements would make little difference. "If they had been applied to Canadian banks over the last few years, both in the U.S. and within Canada, I doubt very much if they would have prevented *any* of the mergers that have gone through," says a senior Canadian banker who has taken part in many merger loans. Either the acquirers borrowed on their general credit, rather than on margin, he explains, or the banks took pains to ensure that their loans complied with U.S. laws anyway. The way Cities Service tells it, however, the imposition of a 50% margin requirement would have put a considerable restraint on Nu-West.

If the result of congressional efforts is no more than cosmetic, that will suit the White House just fine. Anything done in retaliation against nationalistic Canadian policies "would play right into the hands of jingoistic politicians," says a senior Administration official.

Paradoxically, it may well be that moves by the Canadian government will do more to stop Canadian acquisitions in the U.S. than anything done in Washington. Ottawa is extremely concerned about the weakness of the Canadian dollar, recently worth a mere 83 U.S. cents. Finance Minister Allan MacEachen attributes part of this weakness to acquisition spending, so he has asked Canada's leading banks to restrain their financing of such ventures—and, says William Mulholland, the banks have done so.

This doesn't mean that the move south will come to a halt. For one thing, says Mulholland, banks such as his will continue to finance south-of-the-border acquisitions that make sense from the standpoint of Canada's balance of payments: in other words, those that bring back more in earnings than they cost in debt service. For another thing, Canadian companies can borrow outside Canada—in Japan, for example.

Most important of all, the basic rationale behind the move south is likely to overwhelm artificial barriers. Canadian corporations will certainly pay heed to their government's wishes, says Ian D. Sinclair, chairman of Canadian Pacific Enterprises (the investment arm of Canadian Pacific Ltd.). But if a U.S. deal came up that he wanted to do badly enough, "I'd likely go up and discuss it with them." He'd offer to spread the payments out or do the deal in some currency other than U.S. dollars—financing it in the Euromarkets, for instance, if that would be helpful. He gives the strong impression that, in such conditions, Ottawa would not stand in the way.

As Canada counts the costs

Should Washington stand in the way of Canadian Pacific or any other Canadian company that wants to acquire assets in the U.S.? That question should be separated from the question of what the U.S. should do about Canadian discrimination against U.S. companies that own assets in Canada. Some of the commentary in the U.S. has failed to distinguish between these two very different matters.

With a minimum of bluster, the U.S. government should use whatever diplomatic persuasion and pressure it can to secure fair treatment for U.S. business in Canada. In time, diplomacy will get help from economics, as the drying up of U.S. investment in Canada costs Canadians orders and jobs. Sooner or later the Canadian government will be forced to recognize that the discrimination is self-damaging. That recognition, to be sure, will not nec-

continued

a small hotel
quite apart from the others.

Where the staff speaks your language and a dozen others.
(International telex and currency exchange, of course!)

PARK HYATT℠
ON WATER TOWER SQUARE, CHICAGO
312 280 2222

Dictaphone introduces a very valuable commodity.

Dictamite MX. Dictaphone's smallest, smartest portable dictating machine ever. An engineering triumph.

Two speeds mean two full hours of recording time. Fast-forward control. Conference recording capability and microprocessor controlled electronic indexing to search out and playback notes.

Dictamite MX. The new "gold standard" in small portable dictation.

Discover the new Dictamite MX. Fill in the coupon and a Dictaphone representative will contact you. Or call toll-free: 800-431-1708
Except Hawaii and Alaska
(In New York call 914-967-2249)

TFM-101

Name_____ Title_____
Company_____ Phone_____
Address_____ City_____ State_____ Zip_____

Dictaphone and Dictamite are trademarks of Dictaphone Corporation, Rye, N.Y.

Mail to: Dictaphone Corporation, 120 Old Post Road, Rye, New York 10580

Incoming capital creates demand and jobs.

essarily turn Canada away from its nationalistic economic policies. They have an emotional underpinning that may prove resistant to calculation of costs and benefits. But in any event, drum-banging and overt retaliation on the part of the U.S. are likely to do more harm than good.

Disruption of U.S.-Canadian relations would do damage on both sides of the border. Canada is the largest market for U.S. exports and the country in which U.S. business has the largest investment stake. Ian Sinclair notes that "it's not just oil" in Canada that is dominated by Americans. The chemical, pharmaceutical, and automotive industries are also largely controlled by U.S. companies. This, he adds, "is overlooked by Americans."

Foolish to turn them away

As for the investment flowing in from Canada, the U.S. should let it flow. Since U.S. business has enormous investments abroad—amounting to well over $200 billion—the U.S. is in no position to put up barriers to foreign investment. Says a senior U.S. policymaker: "Anything we've come across so far would hurt us more than them."

What's more, the inflow of Canadian capital is a boon to the U.S., not a burden to be resisted or endured. Incoming capital creates demand and jobs. With interest rates at lofty heights, capital is obviously scarce and valuable, and if Canadians want to bring some of theirs into the U.S., it would be foolish to turn them away.

Perhaps the most dispassionate indicator of the effect of Canadian acquisitions is what they do to U.S. stock prices. Canadians were the catalysts in Conoco's jump from less than $50 to more than $90. And when Seagram pointed its magic wand at St. Joe Minerals, notes the monthly *Canadian Business*, "it not only launched St. Joe's shares on a 100% surge, but bolstered share prices from one end of the previously depressed mining spectrum to the other." Stockholders in target companies, then, can give the Canadian acquisition drive three cheers. Americans generally should give it at least two. F